The Great Atlantic & Pacific Tea Company, Inc. 1973 Annual Report.

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Comparative Highlights

(Dollars in thousands, except per share figures)

For the year ended in	**February 1974**	February 1973	February 1972
Sales	**$6,747,689**	$6,368,876	$5,508,508
Income (loss) before income taxes	**19,127**	(106,977)	21,119
Income taxes (credit)	**6,900**	(55,700)	6,500
Net income (loss)	**12,227**	(51,277)	14,619
Per share	**.49**	(2.06)	.59
Per cent of sales	**.18**	(.81)	.27
Cash dividends declared	—	14,925	29,229
Per share	—	.60	1.175
Additions to property	**55,035**	48,458	61,987
Depreciation and amortization	**49,570**	48,870	48,536
At Year-End			
Working capital	**$ 294,555**	$ 329,437	$ 324,683
Current ratio	**1.82**	2.01	2.21
Long-term debt	—	55,000	—
Property—net	**360,253**	358,096	374,137
Stockholders' equity	**611,532**	599,301	665,503
Per share	**24.58**	24.09	26.75
Number of stores	**3,680**	3,940	4,264
Number of stockholders	**43,500**	45,000	53,400
Shares outstanding	**24,875,684**	24,875,224	24,875,224

To our Stockholders:

William J. Kane,
chairman and
chief executive officer.

The past fiscal year proved the soundness of our WEO program.

Despite disruptions from price controls, shortages in certain commodities, sharp increases in farm and wholesale prices and consumer resistance to resulting higher retail prices, A&P reached a new sales record for each quarter of the year. By the fourth quarter profitability had been restored to a level which justified the resumption of dividends on common shares. The dividend of 15 cents a share, declared March 14, 1974, was paid May 1st to stockholders of record April 2nd.

Our sales for the fiscal year were $6,747,689,000, an increase of 5.9 per cent over sales of $6,368,876,000 in the previous year.

Net earnings of $12,227,000 for the year contrasted with a net loss of $51,277,000 for 1972. On a per share basis, earnings were 49 cents against a loss of $2.06 last year.

Our strongest showing was in the fourth quarter when we earned $12,497,000, on record sales of $1,784,372,000.

When we introduced our WEO program in 1972 we had every confidence that it would reestablish A&P's position in the retail grocery business. We expected that after a period of losses we would regain profitability, certainly by early 1973. Sales increased as we had contemplated but our timetable for regaining profitability was thrown off schedule by economic factors which had not been foreseen.

In an effort to combat inflation, the United States Government imposed its Phase III price controls in January 1973 and on

June 13 retail food prices were completely frozen. On July 18, retail price increases were permitted but only to reflect increases in the cost of unprocessed agricultural products between June 1 and June 8. During this entire period, there was no corresponding control or freeze imposed on prices on the initial sales of unprocessed agricultural products. Shortages developed in many commodities, particularly in meats; and for a period normal beef processing operations almost came to a complete stop.

Controls were not eased until September with the introduction of Phase IV of the government's price control program.

With the control or freezing of our retail prices and our inability to pass on the rapidly changing and increasing costs we were incurring, we were selling some items at margins well below normal. As a result, in the second quarter of the year we operated at a loss and in the first and third quarters we managed to show only small profits.

However, we finished the year on a high note. In the fourth quarter A&P achieved the highest sales of any quarter in its history and the best earnings since the fourth quarter of 1970.

We are encouraged by the continuation during the first quarter of the new fiscal year of the upward trend in sales and feel confident we now have the momentum to achieve even greater customer acceptance with increasing sales and profitability.

Our store development program made good progress during the year, although shortages of materials and construction delays threw us behind schedule. We opened 89 large, new supermarkets, generally ranging in size from 20,000 to 35,000 square feet, remodeled and enlarged a number of our other stores and phased out 349 smaller outmoded outlets. Our plans call for the addition of 150 large units during 1974, with 80 of them expected to be completed in the first half of the year.

Our capital expenditures were $55,000,000 last year, and we are budgeting $70,000,000 for our store program for 1974.

During the year, it was decided to move the Company's Headquarters office to Montvale, New Jersey from the facilities it has occupied for 46 years. The move is currently scheduled for July 1.

We enter 1974 greatly encouraged about our prospects. We have complete faith in the effectiveness of the WEO program and are firmly dedicated to its principles which have won back thousands of old customers while attracting many new ones.

In closing, I would like to express my sincere gratitude to our employees whose loyalty and devotion to A&P have been the cornerstone of our progress.

We are grateful to our customers for their renewed shopping interest and patronage.

To our stockholders we pledge our determined effort to make 1974 a successful and profitable year.

W. J. Kane

W. J. Kane
Chairman
May 14, 1974


900
722


Final Touch


A&P
560

A&P-WEO stores contain a total of 1,400 miles of shelving, approximately equal to the distance from New Orleans to Boston. Sections of shelving are pictured.

Rumbling between A&P warehouses and stores are 2,100 trucks operated by or for the Company, many pulling trailers—3,800 in fact. Bumper to bumper they would create their own traffic jam 37 miles long.

Control center manager directs the automated operation of the Edison, N.J. food distribution center, newest of the Company's 87 warehouses. The system automatically selects four store grocery orders simultaneously and delivers the selected merchandise to designated trucks in the shipping area. Forklift truck operator moves palletized load to replenishment rack in the Edison storage area.

A&P is dedicated to bringing to the shoppers of the United States and Canada the most good food for their dollar. Because most shoppers know of A&P only as their supermarket, they are not aware of the diverse activities A&P performs in fulfilling this mission; nor is the average shopper familiar with more than a few of the 113,800 loyal employees engaged in these activities.

The first step in getting products to the ultimate consumer is merchandise procurement. The vital function of purchasing enormous quantities of quality food and non-food products at competitive prices calls for skilled, professional teams of career buyers.

A corporate headquarters staff formulates and administers company buying practices, with responsibility for maintaining contact with manufacturers, selecting qualified suppliers, approving new products and overseeing quality control.

Because A&P guarantees every product it sells, regardless of who produced the item, a staff of laboratory technicians analyzes and approves every item offered for sale, thus assuring the A&P shopper uniformly high quality merchandise.

Grocery buyers, based at field offices throughout the country, contract with a packer or canner after personally seeing that a grower's crop meets A&P grading and quality standards.

The National Meat Department in Chicago has buyers in daily contact with major packers and suppliers, relaying information on product availability to our retail divisions. The staff's sensitivity to changing market conditions enabled the Company to sustain, though at a reduced volume, the flow of meat supplies to the stores last year during two periods of serious shortage.

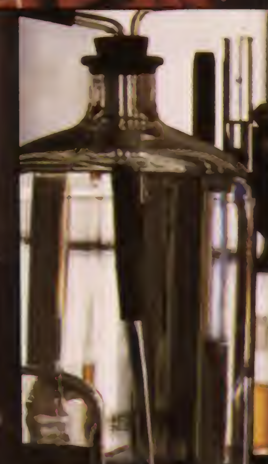
The National Produce Division has expert buyers who follow the growing season from south to north each year, buying the best quality for A&P. This purchasing is administered by a headquarters staff in Paterson, New Jersey, and various regional offices linked together by an extensive teletype network.

The Coffee Division controls the purchase of green coffee from Brazil and Colombia. Based in Landover, Maryland, the division produces 52 varieties and blends of bean, vacuum packed, instant and freeze-dried coffee in its six roasting plants. It constitutes the largest private label roasting operation in the world.

Each of the A&P retail divisions also has its own purchasing director and a staff of buyers responsible for resupplying distribution centers and stores within their area.

In addition to the products that A&P procures from others, approximately 10 per cent of its sales are represented by the fine products made in plants of the Ann Page Division, the National Dairy Division and in the bakeries of the National Bakery Division.

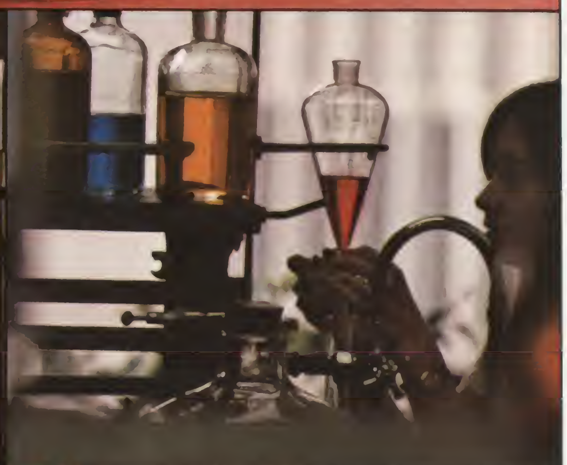
The retail operations of A&P are directed through five regions, each of which is headed by a Regional President who is also a Corporate Vice President. The regions are comprised of 31 retail divisions, each headed by a Vice President-General



Filling machine at modern coffee plant at Landover, Md., automatically pours "perk ground" coffee into cans of A&P Vacuum Pack Coffee.

After roasting process, heat in coffee beans is reduced in "cooling cars" such as this huge unit at the Landover plant.

Blends for the A&P coffee brands are computer-regulated from a control panel in the Landover plant.



A&P produces more than 1,500 flavors and varieties of grocery, dairy, bakery and fish items in its 43 manufacturing and processing plants.

A&P conducts continuous quality control checks on company label products in central laboratories at Headquarters. National brands sold in A&P stores also are tested here.

A few of the 113,800 employee members of the A&P "family," one of the largest in the world.

Attractive reach-in freezer cases with full length glass doors hold a wide variety of frozen foods. If all A&P store refrigerated cases were placed end to end they would extend 225 miles, about the distance from New York City to Washington, D.C.

Manager who is responsible for the total retail operation in his area.

The efficient operation of a retail division requires the coordination of a variety of occupations and activities among our employees in stores, warehouses, trucking fleets and offices; and all these working together comprise one of the most efficient food distribution systems in the world.

The retail divisions, the number of stores in each and the Vice Presidents-General Managers are:

Division / Vice President-General Manager	Stores
Albany Eugene M. Fay	64
Altoona George F. Brown	95
Atlanta Ashley L. Hogewood	101
Baltimore Everett L. Nicholson	158
Birmingham Phillip Kramer	88
Boston Raymond F. Fennessey	168
Bronx Louis S. Van Lenten	165
Buffalo Michael A. Bozza	90
Canada Frederick C. Kennedy	174
Charlotte Emory A. Simpson	278
Chicago Earl E. Poyner	165
Cleveland Robert V. Layden	118
Columbus Donald H. Fields	103
Dallas Lawrence J. Dowling	112
Detroit James L. Madden	168
Indianapolis Robert T. Blade	72
Jacksonville Nicholas J. Gallo	115
Kansas City Theodore G. Otto, Jr.	64
Long Island William J. Vitulli	204
Louisville Roy H. Ruebenstahl	85
Milwaukee P. Dean Ritchey	73
Newark Joseph P. Twill	129
New Orleans Jerry Y. Brashear	115
Paterson Thomas F. Sheridan	95
Philadelphia Robert C. Jordan	184
Pittsburgh James E. Flannery	81
Richmond Ralph H. Saquella	84
St. Louis Ralph W. Franzen	77
Scranton Donald G. Jackson	95
Springfield Charles L. Hunter	82
Toledo John A. McDonald	59

A&P feels a responsibility to its 113,800 employees, not only to help them serve the public better, but also to expand their job capabilities and opportunities for advancement.

The Company has just concluded the first year of a new Employee Development Program. One of its objectives is to prepare selected employees for supermarket management positions through a Basic Training Course. An Advanced Training Course is also conducted for those ready to step up to supervisory positions above the store management level. Information on the skills, capabilities and performance was gathered and evaluated for all members of the management teams of the retail divisions. Subsequently, some employees were reassigned to positions for which their special skills and talents were better suited. Training programs tailored to meet individual needs were arranged, and as a result, many were able to upgrade their performance.

Trainees are exposed to the broad activities of the Company—activities they may not have seen closely before—in order to give them a better appreciation and perspective of the total operation and the interrelationship of the diverse functions. For example, an employee whose entire job experience has been in a supermarket and who is in training for store management, devotes some time during the course in a manufacturing plant, a food distribution center, and in each department of a general office.

The Company program has been augmented by employee participation in university and other institutional courses designed to cultivate the trainee's ability to communicate with others and to motivate people; qualities so necessary for the successful business manager.

Employees have been encouraged to enroll in the Food Industry Management Program conducted by the Home Study Division of Cornell University and thousands have done so. The courses provide both academic enrichment and the latest techniques in supermarket operation and service, including customer relations, and food distribution.

Retraining programs also have been instituted to assure that our employees are equipped to handle the technological improvements taking place in the modern supermarket.

It is considered equally important for administrative employees to keep abreast of the growing capability of modern electronic equipment. Consequently seminars are conducted on a continuing basis at the Company's National Data Center in Piscataway, N.J. to promote more efficient utilization of data processing techniques and equipment.

The Employee Development Program recently has been extended to cover manufacturing and other service department management. As this new Employee Development Program continues and its coverage is broadened, it is expected to contribute significantly to the Company's operating performance and keep A&P a good place to work as well as to shop.


A&P
VITAMIN D MILK
PASTEURIZED
HOMOGENIZED
VITAMIN D
MILK
NET CONTENTS ONE QUART
Campbell's
PORK & BEANS
A&P
Fruit Cocktail
Orange Orange
Hi-C Fruit Drink
Golden Sweet
Del Monte
SWEET PEAS
A&P
MOUTHWASH & GARGLE
Aspirin
FAST RELIABLE RELIEF
Swift's Premium
HAM
NET WT 48 OZ. (3 LBS.)
PERISHABLE - KEEP UNDER REFRIGERATION

Some of the merchandise purchased regularly by the Company's extensive procurement organization to maintain supermarket inventory levels is illustrated on the left.

Management trainees participate in a Cornell University customer relations program.

The Company's National Coordinator explains the operation of a new computerized cash register to an on-the-job trainee.

A computer controlled, electronic checkout system is being tested in the new A&P supermarket at Southeast, N.Y. Besides improving checkout efficiency the system provides valuable sales analyses and can be adapted to "scan" universal product codes when they come into general usage. The code symbol can be seen on the package (right).

Today's shopper demands a wide variety of products, attractively displayed, in a market place that is conveniently planned for her shopping ease.

A&P is responding to these demands by aggressively pursuing a program of replacing small outmoded stores with large modern supermarkets in prime locations. The store of yesteryear, where the emphasis was on staple commodities, has been replaced by a supermarket offering a selection of national brand and A&P brand products that totals more than 11,000 items.

The new stores still feature fruits, vegetables and meats along with a large selection of convenience type foods from the frozen food cases and the store shelves, as well as gourmet and health food products. In keeping with the one-stop shopping concept, to save customers' time and fuel, more space is devoted to health and beauty aids, housewares, soft goods, footwear, games and toys. Many of these new stores feature "Friendship Centers" offering greeting cards, novelties, gifts, live plants and cut flowers, and other appropriate items.

To assure our customers of fresh, wholesome products, more controlled temperature cases are included in the modern A&P.

Computer controlled, electronic checkout systems are being installed in some of the newest stores to provide an accurate and speedy conclusion to the shopping experience.

Last year, 89 new supermarkets were opened replacing 349 smaller stores that were closed. While the number opened was less than the 125 projected a year ago, this was not the result of a change in plans. Rather, it reflected construction delays for various reasons.

The tempo of openings accelerated during the year, with 35 openings in the first half of the year and 54 in the second half. At the end of the year, A&P had leases signed for 225 new supermarkets with over 80 of these expected to open in the first half of fiscal 1974.

Most of the new stores opened have been located in the growing suburban regions, as population shifts occurred. But A&P is not abandoning its customers in the congested metropolitan areas where space does not permit larger supermarkets. Where possible, existing stores are enlarged and other stores are modernized to accommodate as large a variety of merchandise as possible.

This development program is playing an important part in A&P's renewed growth and profitability.

Store Openings & Closings Year Ended in February

	1974	1973	1972
New Stores Opened	**89**	80	104
Average Size (sq. ft.)	**24,900**	23,340	21,800
Old Stores Closed	**349**	404	267
Average Size (sq. ft.)	**10,900**	9,274	10,413

UNITED STATES

Alabama
- Dothan
  800 W. Main St.

Delaware
- Millsboro
  Route 113
- Seaford
  Atlantic Road—
  Stein Highway

Florida
- Daytona Beach
  290 N. Nova Road
- Eustis
  2830 S. Bay St.
- Key West
  1122 Roosevelt Blvd.
- Orlando
  912 Lee Road
- Orlando
  1880 Semoran Blvd.

Georgia
- Atlanta
  6300 Powers Ferry Road
- College Park
  6149 Old National Highway
- Decatur
  2575 Snapfinger Road
- Dunwoody
  2480 Mount Vernon Road
- Knoxville
  164 Montvue Road
- Smyrna
  2532 Atlanta Road, S.E.

Illinois
- Carpentersville
  Illinois Route 25
  100 W. Mall Drive

Indiana
- Connersville
  2420 Park Road
- Michigan City
  2600 Franklin

Kansas
- Shawnee
  11010 W. 74th Terrace

Kentucky
- Louisville
  315 Whittington Pkwy.
- Somerset
  Hwy. 80 By-Pass

Louisiana
- Baton Rouge
  9476 Greenwell Springs Rd.
- Slidell
  196 U.S. Hwy. 190 W.
- West Monroe
  104 Thomas Road

Maryland
- Berlin
  Rte. 50 & Old Ocean Hwy.
- Cumberland
  Baltimore St. &
  Queen City Drive
- Rockville
  15108 Frederick Road

Massachusetts
- East Longmeadow
  408 N. Main St.
- Northampton
  327 King St.
- Norwood
  Boston-
  Providence Hwy. 105

Michigan
- Flint
  G-4455 Clio Road
- Grand Blanc
  12720 S. Saginaw St.
- Imlay City
  605 N. Cedar
- Mason
  540 N. Cedar St.

Missouri
- Ballwin
  901 Clayton Road
- Mehlville
  4411 Lemay Ferry Road

New Hampshire
- Peterboro
  Routes 101 & 202
  Peterborough Shopping
  Plaza

New Jersey
- Clifton
  1 Village Square, S.
- Lebanon Twsp.
  Route 513
- Manahawkin
  609 E. Bay Avenue
- Middletown
  Route 36 & Valley Drive
- Rio Grande
  Routes 9 & 47

New York
- Arthursburg
  Route 82 & Taconic Pkwy.
- Brooklyn
  850 Rockaway
- Centereach
  2150 Middle Country Rd.
- Coram
  1840 Route 112
- Fort Salonga
  Fort Salonga Road
- Geneva
  Canandaigua Road
- Hauppauge
  1235 Veterans Hwy.
- Lowville
  North State St.
- Mattituck
  N.E. Corner Route 25 &
  Factory Avenue
- Melville
  890 Walt Whitman Road
- Sayville
  270 Main St.
- Southeast
  Route 22 RFD 3

North Carolina
- Dunn
  1120 W. Broad St.
- Gastonia
  2530 W. Franklin Blvd.
- Raeford
  240 S. Main St.
- Statesville
  1415 Center St.

Ohio
- Cincinnati
  4930 Delhi Pike
- Columbus
  1921 Channing Way
  Center Drive
- Columbus
  4618 E. Broad St.
- Grove City
  80 Southwest Blvd.
- Kent
  1835 E. Main St.
- Newark
  955 N. 21st St.
- Toledo
  114 S. Byrne Road

Pennsylvania
- Bellefonte
  821 E. Bishop St.
- Butler
  314 New Castle Road
- Chalfont
  Route 202 & Skyline Dr.
- Enola
  Routes 11 & 15
- Trexlertown
  Lower Macungie Road
- Washington
  Jefferson St.
- Waynesboro
  710 N. Main St.

South Carolina
- Myrtle Beach
  2900 N. Kings Hwy.

Texas
- Carrollton
  Belt Line Rd. & Josey Lane
  600 Carrollton Plaza
- Mesquite
  80 Broadmoor Shopping
  Center
  Kearney & Galloway

Virginia
- Chantilly
  13621 Lee Jackson Hwy.
- Franklin
  101 Franklin Plaza
- Richmond
  Azalea Brookhill
  Shopping Center
  Route 301
- Richmond
  6500 Hull St.

Wisconsin
- Fond du Lac
  835 W. Johnson St.
- Muskego
  W. 17301 Janesville Road

CANADA

Ontario
- Chatham
  416 St. Clair Street
- Fort Erie
  200 Garrison Road
- Gananoque
  330 King Street, E.
- Kapuskasing
  Brunetville Road
- Leamington
  250 Erie Street, S.
- Midland
  Hwy. 27 & Hugel Avenue
- Pembroke
  1100 Pembroke Street, E.

Quebec
- Aylmer
  185 Rue Principale
- Rosemere
  327 Boulevard Labelle


A&P
Check and
Compare
Anywhere
Save...
With Quality
Guaranteed
LOW PRICES
WITH ABSOLUTELY
NO COMPROMISE

A&P, the nation's oldest chain, (established in 1859) operates more stores than any other super market chain— almost 3,700 in 33 states, the District of Columbia and Canada.

A customer is in the process of making a selection in a produce department. Her purchase when completed will be one of the 19 million customer transactions recorded weekly at A&P-WEO checkstands.

Colorful citrus captures the spotlight in this section of the produce department.

Display of some of the more than 50 cuts of beef available in a self-service meat department which also features pork, poultry, lamb, veal, smoked and luncheon meat products.

Almost a store within a store is this delicatessen department with its tempting array of meats, cheeses, salads and other "deli" items.

The growth in popularity of health and beauty aids in today's one-stop shopping supermarket is depicted in this photograph of a full-line department.

"Friendship Center" attracts customer interest in a new supermarket. Centers provide convenient in-store location for greeting cards, party gifts, flowers, novelties, and other items.

<u>Operations</u>—Net income in 1973 was $12.2 million or 49 cents a share on sales of $6.7 billion, compared to a net loss of $51.3 million in 1972 with sales of $6.4 billion. Quarterly results were as follows:

(Dollars in thousands) Quarter Ended	Sales	Earnings (Loss)	Cents per Share
May 26, 1973	$1,640,511	$ 2,392	10
August 24, 1973	1,659,406	(3,422)	(14)
November 24, 1973	1,663,400	760	3
February 23, 1974	1,784,372	12,497	50
Total	$6,747,689	$12,227	49

Price controls and the commodity shortages, rising farm and wholesale prices and other difficulties that attended the controls, adversely affected earnings in the first three quarters. A chronology of the control phases and the signficant changes in 1973 follows:

The fiscal year started under Phase III of wage and price controls. Sales of all processed products were subject to price ceilings. However, initial sales of unprocessed agricultural products were not.

On March 29th ceilings were established on meat prices at the level prevailing between February 26th and March 27th.

All food prices were frozen as of June 13th. On July 18th price increases were allowed only to reflect cost increases of unprocessed agricultural products between June 1st and June 8th.

On September 10th, in the 3rd week of the fiscal 3rd quarter, beef price ceilings were eliminated under Phase IV, and the more flexible controls limited only gross profit margins. These less restrictive controls were in force the balance of the year.

<u>Tax Refund</u>—A federal income tax refund of $51 million was received in March, 1973 for a carry-back claim based on the 1972 operating loss. The tax credit had no effect on 1973 earnings.

<u>Inventories</u>—Merchandise on hand February 23, 1974 was $544 million, or $60 million higher than the year before. The increase was caused principally by additional sales requirements and higher product costs.

<u>Capital Expenditures and Depreciation</u>—Expenditures for fixed assets, primarily to equip new stores and to renovate existing stores totaled $55 million, compared to $48 million in 1972. Depreciation and amortization approximated $49 million in each year.

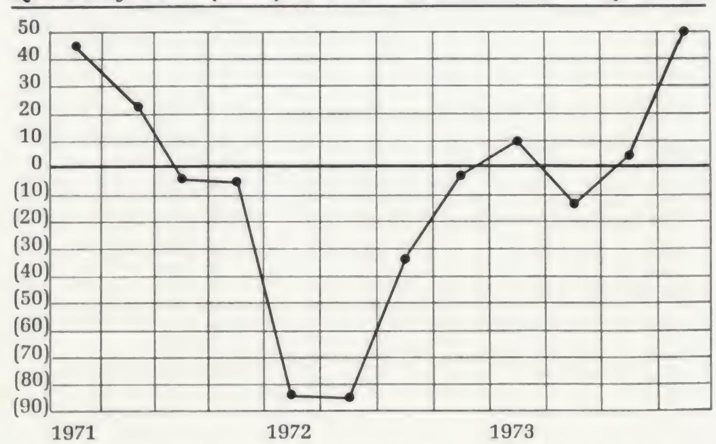
In the new year capital expenditures are expected to be approximately $70 million to support an expanding store development program.

<u>Long-term Debt</u>—Funds borrowed under a revolving credit agreement peaked seasonally at $83 million just before Christmas. At year-end the debt had been fully repaid, whereas $55 million had been outstanding February 24, 1973.

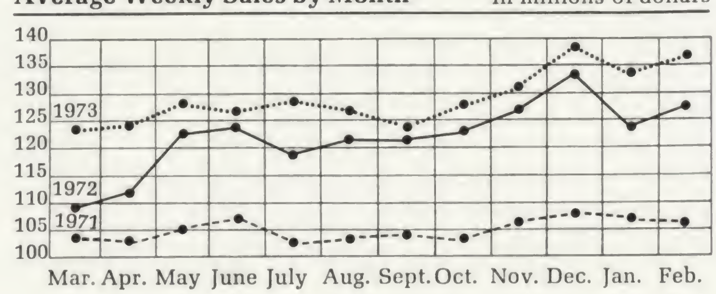
<u>Working Capital</u>—The excess of current assets over current liabilities decreased $35 million during the year mainly because non-current debt of $55 million outstanding February 24, 1973 was repaid. Current ratio was 1.82 at the close of the year, and 2.01 last year.

<u>Stockholders' Equity and Dividends</u>—Stockholders' equity increased $12 million during 1973 to $612 million, or $24.58 per share, compared to $24.09 per share at the end of last year. A dividend of 15 cents a share was declared on March 14, 1974 and paid on May 1, 1974 to stockholders of record April 2, 1974.

Quarterly Profit (Loss) Per Share Cents per share



Average Weekly Sales by Month In millions of dollars



Accounting Policies

Following is a summary of the accounting policies that significantly affect the determination of financial position and results of operations.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated.

Foreign Operations—Except as to net property, assets and liabilities of foreign subsidiaries, principally Canadian, have been translated into U.S. dollars at rates of exchange in effect at the balance sheet dates. Net property has been translated at rates in effect when the properties were acquired. Income and expense accounts have been translated at average rates prevailing during the fiscal year, except that depreciation and amortization have been translated at historical rates. Resulting unrealized translation gains of $680,000 and $256,000 for fiscal 1973 and 1972, respectively, have been credited to a reserve for foreign currency fluctuations, amounting to $1,894,000 at February 23, 1974, which is included in Reserves in the accompanying balance sheet.

Inventories—Inventories are stated at the lower of cost or market, with replacement cost generally being considered to represent market value. Cost is determined on the following bases: inventories in stores—average cost under the retail method; majority of remaining inventories—cost on a first-in, first-out basis.

Property—Property is stated at cost, except for store fixtures and leasehold improvements which are stated at amortized cost. Major renewals and betterments are capitalized, whereas maintenance and repairs are charged to expense. As group depreciation generally is utilized, gains or losses on normal disposition of assets are not recognized until all assets in the group are fully depreciated or disposed of. Fully depreciated property is written off against the related depreciation reserve.

Depreciation and Amortization—For financial reporting purposes, depreciation and amortization are provided, generally on the straight-line method, over the periods of the estimated useful lives of the respective assets. The approximate annual rates are as follows: buildings—from 2% to 5%; store equipment—8%; other equipment—from 6⅔% to 10%; and store fixtures and leasehold improvements—generally from 10% to 12½%.

Income Taxes—Deferred taxes are provided in recognition of timing differences between income tax and financial statement reporting. Investment tax credits are being amortized over the estimated useful lives of the related assets. The credit provision for taxes in the 1972 fiscal year represents the estimated allowable refund resulting from the carry-back of the year's net operating tax loss.

Income taxes are provided on undistributed earnings of foreign subsidiaries not considered permanently invested. Taxes of approximately $7,000,000 have not been provided on permanently invested earnings.

Retirement Plans—Annual costs of the companies' retirement plans are based on actuarial cost methods as applied by independent consulting actuaries and consist of normal cost plus interest on prior service costs which are funded on a current basis.

Earnings (Loss) Per Share—Net income (loss) per share of common stock is based on the weighted average number of common shares outstanding in the respective fiscal years. Stock options (common stock equivalents) outstanding during the respective fiscal years had no dilutive effect.

Reclassifications—State income taxes, previously included in store operating, general and administrative expense in the fiscal 1972 statement of consolidated income, have been included in the provision (credit) for income taxes in the accompanying statements.

Income Taxes

The provision (credit) for income taxes consists of the following:

(Dollars in thousands)	Fiscal 1973	Fiscal 1972
Current:		
U.S. and Canadian	**$ 3,739**	$(51,484)
State	**600**	(1,700)
Investment credit:		
Deferred—current year	**2,502**	580
Amortization	**(1,807)**	(2,124)
Deferred U.S. and Canadian	**1,866**	(972)
Total	**$ 6,900**	$(55,700)

The Company's effective income tax rate was 36.1% for fiscal 1973 and (52.1%) for fiscal 1972. The difference of 11.9% and 4.1%, respectively, between the effective rate and the statutory U.S. rate of 48% is attributable primarily to the effective rate of amortization of investment credits of 9.4% and 2.0%, respectively.

The deferred U.S. and Canadian tax provision (credit) is attributable to the following:

(Dollars in thousands)	Fiscal 1973	Fiscal 1972
Depreciation	**$ 2,249**	$ 1,820
Pension costs	**(1,898)**	(22)
U.S. tax on undistributed Canadian earnings taxed at less than U.S. rate	**1,081**	600
Insurance reserves	**(95)**	(1,464)
Estimated cost of closing facilities	**769**	(1,776)
Other	**(240)**	(130)
Total	**$ 1,866**	$ (972)

The Company has unused investment tax credits of approximately $500,000 from fiscal 1973 and $2,300,000 from fiscal 1972. In addition, a Canadian subsidiary has a net operating loss carry-forward from fiscal 1972 of approximately $6,400,000, after utilizing $625,000 in fiscal 1973. The tax benefit of such carry-forward will be recognized when realized.

Long-Term Debt

Long-term debt at February 24, 1973 consists of notes payable pursuant to a four-bank commitment for borrowings up to $100,000,000 expiring September 1, 1975. Although there were no outstanding borrowings under the commitment on February 23, 1974, borrowings were resumed early in fiscal 1974. Loans are repayable commencing December 1975 to September 1979 in sixteen quarterly installments, aggregating 15% of the borrowings during the first year, and 20%, 30% and 35%, respectively, in succeeding years. Prepayments are permitted without penalty.

Loans pursuant to the commitment bear interest at ¼ of 1% over the banks' prime rate for ninety-day loans. The weighted average interest rates on borrowings during fiscal 1973 and 1972 were 9.1% and 6.1%, respectively. Unused portions of the commitment bear interest at ½ of 1% a year. In addition, there are informal arrangements with the banks requiring the maintenance of compensating balances based on the commitment plus outstanding loans. Such compensating balance requirements are not significant in relation to the Company's recorded cash balances.

The related credit agreement, among other conditions, requires the maintenance on a consolidated basis, of working capital of $250,000,000 and a current ratio of 1.7 to 1. In addition, tangible net worth (approximately equal to stockholders' equity) may not decrease more than $6,000,000 (including dividend payments) during any quarter beginning in fiscal 1974.

The agreement limits dividends (including other defined payments with respect to capital stock) through February 22, 1975 to the lesser of $5,000,000 a quarter or the consolidated net income for the immediately preceding quarter. Commencing fiscal 1975, cumulative dividends from that date may not exceed 50% of: cumulative net income since February 23, 1974 less dividend payments in fiscal 1974.

Leases

Most operations of the companies are conducted in leased premises. The unexpired non-cancellable terms of such leases at February 23, 1974 range up to twenty-five years for store leases and thirty years for other leased facilities. The majority of the leases contain escalation clauses relating to property tax increases, and certain of the store leases provide for increases in rentals when sales at the stores exceed specified levels. Leases for rental of other than real property are not significant.

None of the Company's lease obligations are capitalized. In conformance with a recent requirement of the Securities and Exchange Commission, the Company has classified as financing leases those of its approximately 4,000 leases whose non-cancellable terms either assure the lessor recovery of his cost plus a reasonable return on investment or cover 75% or more of the economic life of the property.

Rent expense, net of minor sublease rentals, for the fiscal years 1973 and 1972 was as follows:

(Dollars in thousands)

Fiscal 1973	Financing Leases	Other Leases	Total
Minimum rentals	**$5,134**	**$106,506**	**$111,640**
Contingent rentals	**72**	**1,198**	**1,270**
Total	**$5,206**	**$107,704**	**$112,910**
Fiscal 1972			
Minimum rentals	$3,341	$105,049	$108,390
Contingent rentals	24	1,050	1,074
Total	$3,365	$106,099	$109,464

Minimum annual rentals, net of minor sublease rentals, for leases in effect at February 23, 1974 are as follows:

(Dollars in thousands)

Year Ending in February	Financing Leases	Other Leases	Total
1975	$ 5,924	$108,808	$114,732
1976	5,924	94,668	100,592
1977	5,917	80,143	86,060
1978	5,758	69,106	74,864
1979	5,606	59,206	64,812
1980-1984	27,987	203,515	231,502
1985-1989	27,472	94,936	122,408
1990-1994	20,775	42,076	62,851
1995-2005	752	452	1,204
	$106,115	$752,910	$859,025

The estimated present value of minimum rentals (net of amounts applicable to taxes and insurance) on noncapitalized financing leases at February 23, 1974 and February 24, 1973 amounted to $39,305,000 and $30,361,000, respectively. Interest rates ranging from 5.25% to 10% used in the present value computations resulted in weighted average interest rates of 7.8% and 7.4% in fiscal 1973 and 1972, respectively.

If all financing leases had been capitalized and the related property rights amortized on the straight-line method and interest expense recorded on the basis of the outstanding lease obligations, costs would have increased (net of tax effect) for fiscal 1973 and 1972 by approximately $496,000 and $312,000, respectively. The assumed amortization and interest costs for fiscal 1973 and 1972 would have been as follows: amortization—$1,976,000 and $1,450,000, respectively; interest—$3,051,000 and $2,233,000, respectively.

Stock Options

At February 23, 1974, and February 24, 1973, there were 518,340 and 595,370 shares, respectively, of unissued common stock reserved for issuance under the Company's 1960 and 1969 stock option plans which provide for the granting of options to executives and key employees for the purchase of common stock at fair market value on the date of grant. Options become exercisable immediately as to 20% of the optioned shares and thereafter as to an additional 20% of the optioned shares on each of the first through the fourth annual anniversaries of the grant date. Granting of options under the 1960 plan was terminated in April 1970. All options outstanding during fiscal 1973 and 1972 have five-year terms.

During fiscal 1973, stock options for the purchase of 83,500 shares of common stock at $9.625 were granted, of which options for 460 shares were exercised. No options were granted or exercised during fiscal 1972. Options for 93,070 shares (aggregate option price of $2,878,000) and 38,120 shares (aggregate option price of $1,301,000) were terminated during fiscal 1973 and 1972. At February 23, 1974, 218,900 shares were available for future grants, and options were outstanding for 299,440 shares at prices ranging from $9.625 to $27.875 a share (aggregate option price of $6,824,000) of which options for 193,400 shares were exercisable.

Retirement Plans

Retirement benefits for substantially all full-time employees are provided by retirement plans of the companies and by industry plans administered jointly by management and unions, with the major portion of such employees being covered by industry plans. On September 1, 1973, the Company's U.S. Plan was amended to provide improved benefits. The amendment increased pension expense in fiscal 1973 by $1,032,000. It is estimated by the companies' independent consulting actuaries that, as of December 31, 1973, the total assets of the companies' plans exceeded the actuarial liabilities for benefits accrued. The cost of all retirement plans (principally attributable to jointly administered industry plans) amounted to $27,770,000 and $21,313,000 for the respective 1973 and 1972 fiscal years.

Assets (Dollars in thousands)	**February 23, 1974**	February 24, 1973
Current assets:		
Cash	**$ 53,816**	$ 67,309
Short-term investments—at cost (approximates market)	**9,164**	7,250
Accounts receivable	**30,339**	26,540
Refundable Federal income taxes	**—**	51,263
Inventories	**544,142**	484,011
Prepaid expenses	**17,339**	19,063
Total current assets	**654,800**	655,436
Property:		
Land	**8,923**	9,582
Buildings	**76,327**	76,713
Equipment	**383,298**	384,145
Total-at cost	**468,548**	470,440
Less accumulated depreciation	**204,532**	208,026
	264,016	262,414
Store fixtures and leasehold improvements, etc., at amortized cost	**96,237**	95,682
Property-net	**360,253**	358,096
Deferred charges and other assets	**3,546**	7,287
Total	**$1,018,599**	$1,020,819

Liabilities And Stockholders' Equity (Dollars in thousands)		
Current liabilities:		
Accounts payable	**$ 272,868**	$ 239,129
United States and foreign income taxes	**4,704**	1,570
Accrued salaries, wages and employee benefits	**49,907**	49,919
Accrued taxes, other than income taxes	**14,188**	12,943
Other accruals	**18,578**	22,438
Total current liabilities	**360,245**	325,999
Long-term debt	**—**	55,000
Deferred income taxes-Net	**29,589**	25,511
Deferred income-Principally investment tax credit	**13,377**	13,530
Reserves	**3,856**	1,478
Stockholders' equity:		
Preferred stock—no par value; authorized—3,000,000 shares; issued—none		
Common stock—$1 par value; authorized—40,000,000 shares; outstanding—1974—24,875,684 shares; 1973—24,875,224 shares	**24,876**	24,875
Capital surplus	**377,156**	377,153
Retained earnings	**209,500**	197,273
Stockholders' equity	**611,532**	599,301
Total	**$1,018,599**	$1,020,819

See Notes to Financial Statements

Statement of Changes in Consolidated Financial Position

(Dollars in thousands)	**52 Weeks to February 23, 1974 (Fiscal 1973)**	52 Weeks to February 24, 1973 (Fiscal 1972)
Source of funds:		
From operations:		
Net income (loss)	**$ 12,227**	$ (51,277)
Expenses (income) not requiring (providing) working capital:		
Depreciation and amortization	**49,570**	48,870
Deferred income taxes (non-current portion)	**4,078**	593
Deferred investment tax credit	**695**	(1,544)
Working capital provided from (used in) operations	**66,570**	(3,358)
Sale of property	**3,308**	15,629
Proceeds from borrowings (long-term debt)	**130,000**	95,000
Other	**5,275**	866
Total	**205,153**	108,137
Disposition of funds:		
Expenditures for property	**55,035**	48,458
Repayment of long-term debt	**185,000**	40,000
Cash dividends	**—**	14,925
Total	**240,035**	103,383
Increase (decrease) in working capital	**(34,882)**	4,754
Working capital—Beginning of year	**329,437**	324,683
Working capital—End of year	**$294,555**	$329,437
Increase (decrease) in components of working capital:		
Cash and short-term investments	**$ (11,579)**	$ (27,956)
Accounts receivable	**3,799**	5,578
Refundable Federal income taxes	**(51,263)**	41,363
Inventories	**60,131**	41,110
Prepaid expenses	**(1,724)**	2,909
Net change in current assets	**(636)**	63,004
Accounts payable	**33,739**	51,318
United States and foreign income taxes	**3,134**	(685)
Accrued expenses	**(2,627)**	12,592
Dividends payable	**—**	(4,975)
Net change in current liabilities	**34,246**	58,250
Increase (decrease) in working capital	**$ (34,882)**	$ 4,754

 See Notes to Financial Statements

Statement of Consolidated Income and Retained Earnings

(Dollars in thousands, except per share figures)	**52 Weeks to February 23, 1974 (Fiscal 1973)**	52 Weeks to February 24, 1973 (Fiscal 1972)
Sales	**$6,747,689**	$6,368,876
Cost of merchandise sold	**5,513,573**	5,267,409
Gross margin	**1,234,116**	1,101,467
Store operating, general and administrative expense	**1,213,212**	1,207,478
Income (loss) from operations	**20,904**	(106,011)
Interest:		
Income—Primarily on temporary cash investments	**1,662**	1,286
Expense	**(3,439)**	(2,252)
Income (loss) before income taxes	**19,127**	(106,977)
Income taxes—Provision (credit)	**6,900**	(55,700)
Net income (loss)	**12,227**	(51,277)
Retained earnings—Beginning of year	**197,273**	263,475
Cash dividends	—	(14,925)
Retained earnings—End of year	**$209,500**	$197,273
Net income (loss) per common share	**$.49**	$(2.06)
Cash dividends per common share	—	.60

See Notes to Financial Statements.

Auditors' Opinion

Haskins & Sells
Certified Public Accountants

To the Board of Directors and Stockholders of
The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc., and its subsidiary companies as of February 23, 1974 and February 24, 1973 and the related statements of consolidated income and retained earnings and of changes in consolidated financial position for the respective 52-week periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the companies at the respective year ends and the results of their operations and the changes in their financial position for the respective 52-week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

Two Broadway,
New York, New York
April 26, 1974

Six-Year Review of Performance

(Dollars in thousands, except per share figures)

For the year ended in February	1974	1973	1972	1971	1970(c)	1969
Operating Data						
Sales	**$ 6,747,689**	6,368,876	5,508,508	5,664,025	5,753,692	5,436,325
Income (loss) before income taxes	**$ 19,127**	(106,977)	21,119	91,629	105,202	90,247
Income taxes (credit)	**$ 6,900**	(55,700)	6,500	41,500	51,900	45,000
Net income (loss)	**$ 12,227**	(51,277)	14,619	50,129	53,302	45,247
Per cent of sales	**.18**	(.81)	.27	.89	.93	.83
Number of employees	**113,800**	123,600	113,600	125,000	130,100	131,500
Number of stores	**3,680**	3,940	4,264	4,427	4,575	4,713
Total store area (square feet)	**56,354,000**	57,590,000	58,628,000	58,685,000	58,922,000	59,541,000
Balance Sheet Data						
Total assets	**$ 1,018,599**	1,020,819	972,934	978,870	957,073	911,796
Working capital	**$ 294,555**	329,437	324,683	346,510	335,836	317,331
Current ratio	**1.82**	2.01	2.21	2.35	2.29	2.32
Additions to property	**$ 55,035**	48,458	61,987	60,062	63,259	61,415
Property—net	**$ 360,253**	358,096	374,137	353,652	344,760	336,607
Long-term debt	**$ —**	55,000	—	—	—	—
Stockholders' equity	**$ 611,532**	599,301	665,503	680,112	662,321	640,492
Stockholders' equity per share (a)	**$ 24.58**	24.09	26.75	27.34	26.63	25.80
Common Stock Data						
Net income per share (b)	**$ .49**	(2.06)	.59	2.02	2.15	1.82
Cash dividends per share	**$ —**	.60	1.175	1.30	1.30	1.30
Shares outstanding	**24,875,684**	24,875,224	24,875,224	24,875,224	24,874,295	24,822,021
Number of stockholders	**43,500**	45,000	53,400	47,900	52,700	53,400

(a) Based on the number of common shares outstanding at each year-end.
(b) Based on the weighted average number of common shares outstanding each year.
(c) 53 weeks; all other years contained 52 weeks.

Directors

Harold J. Berry
Director and Chairman, Investment Banking Committee; Merrill Lynch, Pierce, Fenner & Smith, Inc.

R. Manning Brown, Jr.
Chairman of the Board and Chief Executive Officer, New York Life Insurance Company

William Corbus
Vice Chairman of the Board of Directors

Donald Kirk David
Former Dean of Harvard Business School

Charles F. Detmar, Jr.
Partner; Cahill Gordon & Reindel

Harry C. Gillespie
Vice President and Treasurer

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Chairman of the Board of Directors and Chief Executive Officer

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Robert F. Longacre
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M. Dean Potts
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General Partner; Kuhn, Loeb & Co.

Percy A. Smith
Vice President

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Edward J. Toner
Partner; Collins, Toner & Rusen

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Vice President

Percy A. Smith
Vice President

Robert L. Spencer
Vice President

Executive Offices*
420 Lexington Avenue
New York, N.Y. 10017
Telephone 212-689-4000

Transfer Agent
Morgan Guaranty Trust Company of New York
New York, N.Y.

Registrar
First National City Bank
New York, N.Y.

Common stock of the company is traded on the New York Stock Exchange under the symbol "GAP."

The annual meeting of stockholders will be held on Tuesday, June 18, 1974 at 10 a.m. at Hunt Valley Inn, Hunt Valley, Maryland, a suburb of Baltimore. You are cordially invited to attend.

Copies of the Form 10-K submitted to the Securities Exchange Commission may be obtained by writing to the Corporate Secretary.

*After July 1, 1974 the Company's address will be:
2 Paragon Drive
Montvale, New Jersey 07645
Telephone 201-573-9700

A&P

Designed by Johannes Regn, Incorporated